

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

MARCH 18, 2005



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CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

The enclosed report prepared by VonLehman & Company, Inc. Certified Public Accountants, presents the Campbell County Sheriff's Settlement - 2004 Taxes as of March 18, 2005.

We engaged VonLehman & Company, Inc. to perform the financial audit of this statement. We worked closely with the firm during our report review process; VonLehman & Company, Inc. evaluated the Campbell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT – 2004 TAXES

MARCH 18, 2005

VonLehman & Company Inc. has completed the audit of the Sheriff's Settlement - 2004 Taxes for Campbell County Sheriff as of March 18, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$33,488,711 for the districts for 2004 taxes, retaining commissions of \$1,077,256 to operate the Sheriff's office. The Sheriff distributed taxes of \$32,376,378 to the districts for 2004 Taxes. Taxes of \$6,135 are due to the districts from the Sheriff and refunds of \$260 are due to the Sheriff from the taxing districts.

Comment(s):

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
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Independent Auditor's Report

We have audited the Campbell County Sheriff's Settlement - 2004 Taxes as of March 18, 2005. This tax settlement is the responsibility of the Campbell County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Campbell County Sheriff's taxes charged, credited, and paid as of March 18, 2005, in conformity with the modified cash basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky

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Finance and Administration Cabinet

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Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

VonLehman & Company Inc.

Fort Mitchell, Kentucky

Audit fieldwork completed -
September 28, 2005

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
SHERIFF'S SETTLEMENT – 2004 TAXES

March 18, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,166,039	\$ 7,293,316	\$ 13,496,955	\$ 5,197,630
Tangible Personal Property	313,251	474,662	863,855	905,355
Intangible Personal Property				694,865
Increases Through Exonerations	4,845	13,486	21,120	6,175
Franchise Corporation	240,381	299,601	673,315	
Penalties	14,995	25,321	47,451	19,985
Adjusted to Sheriff's Receipt	(2,004)	(3,976)	(6,991)	(2,422)
Gross Chargeable to Sheriff	<u>\$ 4,737,507</u>	<u>\$ 8,102,410</u>	<u>\$ 15,095,705</u>	<u>\$ 6,821,588</u>
<u>Credits</u>				
Exonerations	\$ 23,100	\$ 49,560	\$ 101,597	\$ 33,844
Discounts	76,138	132,203	244,046	115,365
Delinquents:				
Real Estate	60,626	92,252	170,941	75,639
Tangible Personal Property	12,370	18,747	26,519	30,079
Intangible Personal Property				3,864
Uncollected Franchise	<u>274</u>	<u>406</u>	<u>929</u>	
Total Credits	<u>\$ 172,508</u>	<u>\$ 293,168</u>	<u>\$ 544,032</u>	<u>\$ 258,791</u>
Taxes Collected	\$ 4,564,999	\$ 7,809,242	\$ 14,551,673	\$ 6,562,797
Less: Commissions *	<u>194,300</u>	<u>239,958</u>	<u>363,792</u>	<u>279,206</u>
Taxes Due	\$ 4,370,699	\$ 7,569,284	\$ 14,187,881	\$ 6,283,591
Taxes Paid	4,364,208	7,561,161	14,173,710	6,277,299
Credit For Commissions Per KRS 134.290	31	62	141	41
Refunds (Current and Prior Year)	<u>4,866</u>	<u>6,223</u>	<u>11,471</u>	<u>6,367</u>
		**	***	
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 1,594</u>	<u>\$ 1,838</u>	<u>\$ 2,559</u>	<u>\$ (116)</u>

*, **, and *** See Next Page

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
 JOHN DUNN, SHERIFF
 SHERIFF'S SETTLEMENT – 2004 TAXES
 March 18, 2005
 (Continued)

* Commissions

10% on	\$	10,000
4.25% on	\$	16,098,287
2.5% on	\$	14,551,672
1% on	\$	2,828,752

** Special Taxing Districts:

Library District	\$	754
Health District		287
Extension District		247
Soil Conservation		24
Courthouse Commission		83
Fire District #1		217
Central Campbell Fire District		370
Fire District #4		(5)
Fire District #5		(138)
Fire District #6		<u>(1)</u>

Due Districts or (Refunds Due Sheriff) \$ 1,838

*** School Districts:

Common School District	\$	1,150
Bellevue School District		332
Dayton School District		<u>1,077</u>

Due Schools or (Refunds Due Sheriff) \$ 2,559

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT

MARCH 18, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 18, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT
MARCH 18, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2004 through March 18, 2005.

Note 4. Interest Income

The Campbell County Sheriff earned \$15,328 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Campbell County Sheriff collected \$80,863 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Campbell County Sheriff collected \$2,705 of advertising costs and \$3,210 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$8,189 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

CAMPBELL COUNTY
JOHN DUNN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
As of March 18, 2005

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to the following:

1. Cash recounted and deposited by the Sheriff.
2. Surprise cash counts by the Sheriff.
3. Reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
4. Reconciliation by the Sheriff of monthly collection reports the receipts ledger and disbursements ledger.
5. Requiring dual signatures on checks with one being that of the Sheriff.
6. Examination by the Sheriff of tax distributions prepared by another employee.
7. Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
8. Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response: None

PRIOR YEAR

Lacks Adequate Segregation of Duties

Condition unchanged and is repeated.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky
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Report Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Campbell County Sheriff's Settlement - 2004 Taxes as of March 18, 2005, and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's Settlement - 2004 Taxes as of March 18, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky

Audit fieldwork completed -
September 28, 2005

